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HOUSE OF REPRESENTATIVES

REPORT
106–33

DISASTER MITIGATION COORDINATION ACT OF 1999

MARCH 1, 1999.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. TALENT, from the Committee on Small Business, submitted the following

REPORT

[To accompany H.R. 818]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business, to whom was referred the bill (H.R. 818) to amend the Small Business Act to authorize a pilot program for the implementation of disaster mitigation measures by small businesses, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE

The purpose of H.R. 818 is to establish a pilot program for making loans to small businesses for the purpose of implementing techniques and technologies that will mitigate the effects of natural disasters. The Small Business Administration (SBA) currently administers a disaster loan program that lends to small businesses and homeowners affected by natural disasters. Implementation of H.R. 818 will enable the SBA to lend to small businesses in disaster prone areas and help them avert and lessen the costs of future disaster inflicted damages.

NEED FOR LEGISLATION

Since 1953, the Small Business Administration has administered the disaster loan program authorized by Section 7(b) of the Small Business Act. This program provides loans to help small businesses and homeowners to rebuild after natural disasters. In past years the loan program has spent billions of dollars helping small businesses recover from natural disasters. In fiscal year 1998, the SBA lent $728 million for 30,154 disaster loans; in 1997 it lent $1.1 billion for 49,515 disaster loans. The SBA's highest demand for disas-

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ter loans came in 1994, when it loaned over $4.1 billion due to the Northridge Earthquake in California.

The cost of disaster assistance has risen over the past several years due to increases in construction and other costs. By implementing a program to help small businesses use techniques that would lessen damage in the event of natural disasters the possibility exists to save millions of dollars in potential losses. The Federal Emergency Management Agency (FEMA) currently manages "Project Impact" which works in conjunction with communities and businesses on mitigation policies and techniques. Passage of H.R. 818 will complement and further these efforts at mitigation by offering small businesses low interest loans for disaster mitigation.

COMMITTEE ACTION

During the 105th Congress, the Committee on Small Business passed H.R. 3412, a bill to make technical corrections to the Small Business Investment Company Program. This bill passed the House of Representatives on March 24, 1998. When it passed the Senate, on September 30, 1998, it included language substantially similar to H.R. 818. Unfortunately, H.R. 3412 was not taken up again by the House during the 105th Congress due to time constraints.

In the 106th Congress, the Committee on Small Business held a hearing on February 24, 1999 to discuss the fiscal year 2000 budget submission for the Small Business Administration. As part of this hearing, Aida Alvarez, the Administrator of the Small Business Administration, testified concerning the SBA's request for $934 million dollars in disaster loans for anticipated damage in the coming year. She also discussed FEMA and SBA's current efforts at mitigation and stated that FEMA estimates a $2 saving for every $1 spent on mitigation. The Administrator expressed strong support for H.R. 818.

H.R. 818 was introduced on February 24, 1999. On February 25, 1999, the Committee on Small Business met for the purpose of considering and reporting H.R. 818 and H.R. 774. H.R. 818 was introduced, considered as read, and opened for amendment. No amendments were offered. Chairman Talent then moved to pass H.R. 818 and report it to the House. At 11 a.m., by a unanimous voice vote, a quorum being present, the Committee passed the bill, H.R. 818, and ordered it reported.

SECTION-BY-SECTION ANALYSIS

Section 1. Short title

This act may be cited as the "Disaster Mitigation Coordination Act of 1999".

Section 2. Pilot program

(a) This paragraph authorizes the Administrator to establish a pilot program to make loans to small businesses and homeowners for the purpose of mitigating the effects of natural disasters. These loans will be made in support of a formal mitigation program established by the Federal Emergency Management Agency. These mitigation techniques will be varied and include a variety of activities including building improvements, relocation, etc.

(b) This paragraph authorizes SBA to lend up to $15,000,000 each year through 2004 in support of the disaster mitigation pilot program. These funds will come from existing Section 7(b) disaster loan appropriations and will be subject to appropriations available for that program.

(c) This paragraph requires the Administrator of the SBA to report to Congress on January 31, 2003. The report will document the number of loans made, the areas served by the pilot, and the estimated savings to the government as a result of the program.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, February 26, 1999.

Hon. JAMES M. TALENT,
Chairman, Committee on Small Business,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 818, the Disaster Mitigation Coordination Act of 1999.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Mark Hadley.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

H.R. 818—Disaster Mitigation Coordination Act of 1999

Summary: H.R. 818 would establish a pilot program to make direct and guaranteed loans to small businesses for preventive measures that would reduce the long-run costs of disasters. The bill would authorize a program level of $15 million (for the total of direct and guaranteed loans) for each of the fiscal years 2000 through 2004.

Based on information from the Small Business Administration (SBA) and the historical experience of SBA's loan programs. CBO estimates that the SBA would require an annual appropriation of $3 million to cover the subsidy costs of the proposed program. Outlays would be about $2 million in 2000 and $3 million in each year during the 2001–2004 period, assuming appropriation of the necessary amounts.

H.R. 818 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. H.R. 818 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated cost to the Federal Government: For the purposes of this estimate, CBO assumes that H.R. 818 will be enacted by the beginning of fiscal year 2000 and that the necessary amounts will be appropriated for each year. The estimated budgetary impact of H.R. 818 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	By fiscal years in millions of dollars—				
	2000	2001	2002	2003	2004
SPENDING SUBJECT TO APPROPRIATION					
Estimated Authorization Level	3	3	3	3	3
Estimated Outlays	3	3	3	3	3

Basis of Estimate: Under current law, the SBA lends to homeowners and businesses that have been victims of disasters. In 1998, SBA approved about $623 million in post-disaster loans to homeowners and businesses. H.R. 818 would authorize a new pilot program to make direct and guaranteed loans to small businesses for preventive measures that would reduce the long-run costs of disasters. To be eligible for such a loan, a small business must be unable to obtain a loan elsewhere for the purpose of such pre-disaster mitigation.

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs and administrative costs for credit programs. The subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis and excluding administrative costs. Based on information from SBA, CBO estimates that the subsidy costs of making loans under the proposed mitigation program would be similar to the subsidy costs of making loans under the existing disaster program, or about 22 percent of the original value of the loan. Borrowers under the mitigation program would not be as likely to default as similar businesses under the disaster program because they would not yet be victims of disasters. However, the disaster program also lends to homeowners, which are generally less risky borrowers than small businesses, and the mitigation loans would only serve small businesses that are unable to obtain loans elsewhere. Finally, loans for disaster mitigation would not increase the gross receipts of a borrower, but would increase payments for debt.

At a 22 percent subsidy rate, the SBA would need appropriations of about $3 million a year to make the authorized loans and loan guarantees. CBO estimates that subsidy outlays would be $2 million in 2000 and $3 million each year during the 2001–2004 period. SBA would also incur some new administrative costs, both for managing the program and preparing a report that would be required by the bill. CBO estimates that such costs would be well below $500,000 in any year.

Pay-as-you-go considerations: None.

Intergovernmental and private-sector impact: H.R. 818 contains no intergovernmental or private sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Mark Hadley.

Estimate approved by: Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.

Committee Estimate of Costs

Pursuant to the Congressional Act of 1974, the Committee estimates that the amendments to the Small Business Act contained in H.R. 818 will not increase appropriations over the next five fiscal years. Furthermore, pursuant to clause 3(d)(2)(A) of rule XIII of the Rules of the House of Representatives, the Committee estimates that implementation of H.R. 818 will not significantly increase administrative costs. This concurs with the estimate of the Congressional Budget Office.

Oversight Findings

In accordance with clause 4(c)(2) of rule X of the Rules of the House of Representatives, the Committee states that no oversight findings or recommendations have been made by the Committee on Government Reform with respect to the subject matter contained in H.R. 818.

In accordance with clause (2)(b)(1) of rule X of the Rules of the House of Representatives, the oversight findings and recommendations of the Committee on Small Business with respect to the subject matter contained in H.R. 818 are incorporated into the descriptive portions of this report.

Statement of Constitutional Authority

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds the authority for this legislation in Article I, Section 8, Clause 18, of the Constitution of the United States.

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SMALL BUSINESS ACT

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SEC. 7. (a) * * *

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(b) Except as to agricultural enterprises as defined in section 18(b)(1) of this Act, the, Administration also is empowered to the extent and in such amounts as provided in advance in appropriation Acts—

(1)(A) * * *

(B) to refinance any mortgage or other lien against a totally destroyed or substantially damaged home or business concern: *Provided,* That no loan or guarantee shall be extended unless the Administration finds that (i) the applicant is not able to obtain credit elsewhere; (ii) such property is to be repaired, rehabilitated, or replaced; (iii) the amount refinanced shall not exceed the amount of physical loss sustained; and (iv) such amount shall be reduced to the extent such mortgage or lien is satisfied by insurance or otherwise; *and*

(C) during fiscal years 2000 through 2004, to establish a disaster mitigation program to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred (guaranteed) basis) as the Administrator may determine to be necessary or appropriate to enable small business concerns to implement mitigation measures pursuant to a formal disaster mitigation program established by the Federal Emergency Management Agency, except that no loan or guarantee may be extended to a small business concern under this subparagraph unless the Administration finds the concern is otherwise unable to obtain credit for the purposes described in this subparagraph.

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SEC. 20. (a) * * *

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(f) DISASTER MITIGATION PILOT PROGRAM.—The following program levels are authorized for loans under section 7(b)(1)(C):

(1) $15,000,000 for fiscal year 2000.
(2) $15,000,000 for fiscal year 2001.
(3) $15,000,000 for fiscal year 2002.
(4) $15,000,000 for fiscal year 2003.
(5) $15,000,000 for fiscal year 2004.

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